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SIPDIS

E.O. 12958:N/A
TAGS: ECON GH
SUBJECT: INFLATION CONTINUES TO CREEP UP

¶1. Summary: The Ghana Statistical Service (GSS) statistics for March show that strong inflationary pressures continue to bedevil the Ghanaian economy. Most analysts believe the GoG/IMF inflation target of 9 percent at the end of 2003 is unachievable. End Summary

¶2. Figures released by the GSS showed that prices rose by 29.9 percent between March 2002 and March 2003, compared to the 29.4 for February 2002 to February 2003. The official inflation rate is currently at its highest level since September 2001. The GSS said a 3.3 percent increase in the price of food and beverages and a 5.9 percent rise in the cost of housing and utilities during March were the main contributing factors.

¶3. A sharp rise in the inflation rate from 16.3 percent in January to 29.4 percent in February generated a lot of controversy over the accuracy of the figures. This delayed the Monetary Policy Committee's decision on the Bank of Ghana's prime rate. The February figure was finally accepted, but it was expected to be a one-time increase and thought to be the result of "turbulent data" captured during the confusion over transport fares after the petroleum product price increase in January 2003. As a result of this the MPC cautiously increased the prime rate from 25.5 percent to 27.5 percent in March.

¶4. Contrary to government expectations, inflation has gone up again in March 2003. Economists believe that inflation impulses still persist which makes the disinflation process hard to achieve. The rationalization of petroleum products and utilities prices and the transmission lag of money supply growth of 50 percent in 2002 are still exerting some pressures. The upward revision of the prime rate has been followed by an increase in the lending rates, which may lead to some cost-push effects.

¶5. To most analysts, the GoG/IMF inflation target of 9 percent at the end of 2003 is unachievable. There are expectations that it may slow down in the second half of the year but may still remain between 15-20 percent. It will, however, require a great deal of fiscal and monetary tightness in order to get there.

Yates